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UNITED STATES BANKRUPTCY COURT
MIDDLE DISTRICT OF FLORIDA

IN RE:

CASE NO.: 8:07-02650-CPM

Construction Compliance,
Inc.,
Jesse B. Battle, III,
President
624 28th Avenue North
St. Petersburg, FL 33704

Debtor.
_____ /

ORIGINAL

341 HEARING OF: JESSE B. BATTLE, III
TAKEN: Pursuant to Notice
TIME: 10:00 a.m. to 3:49 p.m.
DATE: May 9, 2007
PLACE: Howard Johnson Plaza Hotel
111 W. Fortune Street
Tampa, Florida
BEFORE: HEATHER M. ANDREWS
Notary Public
State of Florida at Large

APPEARANCES:

TERRY BOATNER, ESQUIRE
United States Department of Justice
501 E. Polk Street
Tampa, FL 33602

On behalf of the United States Trustee

THOMAS C. LITTLE, ESQUIRE
2123 N.E. Coachman Road
Suite A
Clearwater, FL 33765

On behalf of Jesse B. Battle, III

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PROCEEDINGS

MS. BOATNER: We're on the record in the matter of Construction Compliance, Inc., docket number 07-02650-CPM. This Chapter 11 case was filed on April 3rd, 2007 in the Middle District of Florida under Chapter 11. Today is May 9th, 2007. Let the record reflect this is the scheduled time, date and place for the 341 meeting in this case. My name is Terry Boatner and I'm an attorney with the office of the United States Trustee under the authority of the United States Department of Justice. Our statutory charge is to oversee the administration of cases filed under the bankruptcy code. And as part of that charge I'll be conducting this 341 meeting of creditors. The purpose of the meeting is to allow the United States Trustee and any creditors present to obtain information about business and financial affairs of the debtor. I will conduct an initial examination of the debtor's representative following which any creditor in attendance may ask questions of the debtor's representative of the business and financial affairs of the debtor. I ask that you not repeat questions that I have asked or we'll be here for quite a while. And I also ask that you

1 A. From the debtor, no, ma'am.

2 Q. From Construction Compliance, Inc?

3 A. No, ma'am.

4 Q. And we may go back to this. But right now I
5 want you to give me a brief history of the debtor's
6 business operation?

7 A. From basically starting in like 2004?

8 Q. When did the company start?

9 A. The company started in 1992. It was a
10 subcontractor construction management, single family
11 homes, some condominiums as a construction management.
12 In 2003 we started building single family homes in the
13 Poinciana area of Orange County. In early 2004 we
14 started building a single family home down in North Port
15 to have it as a model center and start building single
16 family homes in North Port. In the summer of 2004 Coast
17 Bank and American Mortgage Link came to CCI and
18 presented us with a financing and mortgage plan that
19 they wanted us to build homes and they could sell homes.
20 That land was modified several different ways by Coast
21 Bank, and basically they would call us, American
22 Mortgage Link, saying they had X qualifying buyers. Did
23 I have any lots for sale. And at that time we had
24 anywhere from 10 to 30 lots, and they would have from
25 anywhere to 10 to 40 qualified buyers and they would put

1 a qualified buyer on one of our lots and bring me a
2 construction contract. Coast Bank would do the
3 financing. How far do you want me to go with all this?

4 Q. Explain what the debtor's business. Go ahead.

5 A. This construction sales method started in
6 September of probably 2004, got extremely aggressive all
7 of 2005 and then it seemed to all stop about 2006. We
8 went from probably 11 employees up to 70 and more
9 employees going through 2005 and into 2006 trying to
10 keep up with the demand of the selling of an average of
11 35 to 40 homes a month. Permitting time going from 30
12 days to five months with everyone being overwhelmed,
13 survey crews being overwhelmed, from engineers being
14 overwhelmed, the health department being overwhelmed to
15 the building department being overwhelmed. The building
16 department in 2005 wanted to put the building
17 (inaudible) in the North Port Charlotte area because of
18 the overwhelm of all the construction. Not only was CCI
19 trying to build all those homes and so was most other
20 contractors. From the bottleneck of -- if you're
21 waiting to permit homes taking five months and at that
22 same time you're still selling contracts of 30 to 40
23 homes at one point in time there becomes a bottleneck on
24 both ends. All of a sudden now you have yourself where
25 you're building two hundred homes, trying to build them,

1 trying to manage all that. And now you're getting the
2 permits on homes to the tune of anywhere from 10 to 20 a
3 month and you can't get those into the field because you
4 can't get the ones built that you're already building.

5 Q. When did you realize this was a problem, this
6 process?

7 A. Probably in November of 2005 that we're now
8 keeping an average of a hundred homes permitted, and we
9 can't get into the field because we have over two
10 hundred homes, 250 after I realized that I relied on
11 staff that was managing the construction, bidding,
12 keeping up with where costs were going and coming back
13 and trying to satisfy all these issues that were coming
14 up.

15 Q. Mr. Battle, will you please answer my question.
16 When did you realize this was a problem, you?

17 A. I thought I answered it. November of 2005.

18 Q. After that did you continue to contract with
19 buyers?

20 A. Well, yes, we did. But it slowed to a pace
21 that was much more manageable knowing that we -- we did
22 not know we had a payables problem other than our
23 payables -- we tried to keep on no more than 30 days but
24 they were at that time starting to stretch into the 60
25 days.

1 Q. We're in November of '05. When did you realize
2 your permitting is taking how long?

3 A. The permitting had been all of 2005, most all
4 of 2005. It was taking four and five months to get a
5 permit. And if there was any issue that came up in that
6 time, sometimes that permit could stretch on into six or
7 seven months but that is not the case of the normality.
8 All during that time is when it started to become a
9 large issue that the interest is still being paid on all
10 these closed construction loans.

11 Q. On that point let's back up a minute to new
12 construction loans. Do I understand correctly that when
13 you sold these properties to buyers you sold them for 90
14 percent of the appraised value when finished?

15 A. Yes, ma'am.

16 Q. And from that amount, the 90 percent amount,
17 the buyer obtained 100 percent financing?

18 A. The buyer ultimately received 100 percent
19 financing.

20 Q. And at the closing on the loan the closing
21 costs were paid including any realty fees, any closing
22 costs, and the lot was paid for? In other words,
23 Construction Compliance, Inc. has paid for its lot;
24 correct?

25 A. Yes, ma'am.

1 Q. And a ten percent draw was paid to Construction
2 Compliance, Inc. to begin the billing process; correct?

3 A. Yes, ma'am.

4 Q. And an escrow was placed for interest during
5 the construction period; correct?

6 A. Well, in that total amount to bill the home was
7 a line item construction interest.

8 Q. How many months did that construction interest
9 amount cover for the payments on --

10 A. In most cases was half eaten up.

11 Q. That's not my question. How many months at the
12 closing of the house on the loan -- you're at the
13 closing?

14 A. Yes, ma'am.

15 Q. And you're getting a check for the lot?

16 A. Yes, ma'am.

17 Q. You're getting your ten percent draw?

18 A. Yes.

19 Q. And you put this deal together because you're
20 the developer; right?

21 A. Yes, ma'am.

22 Q. At the closing you know the bank is going to
23 control the construction loan funds?

24 A. Yes.

25 Q. And you know as part of those construction loan

1 funds, the bank is marking a portion to pay the interest
2 during the construction period; correct?

3 A. Yes, ma'am.

4 Q. And that's in the contract with these buyers?

5 A. Yes, ma'am.

6 Q. How many months is that money that's being set
7 aside for the escrow supposed to cover for the payments
8 on the loan?

9 A. I believe it was tried to cover an eight month
10 period.

11 Q. And did you know in November of '05 because you
12 weren't getting these permits for seven months that you
13 weren't going to be able to complete the building of
14 that home in eight months?

15 A. Yes, ma'am.

16 Q. Then why did you sell the home under those
17 terms?

18 A. In November of '05 we started changing the
19 amount of money that was in the interest reserve to
20 cover closer to what was really taking the reality of
21 closing on the construction contract to sealing the
22 home. This started in September of '04 of selling the
23 majority of them among owner occupied housing. So by
24 the time November of '05 rolled around there was already
25 several hundred homes sold.

1 Q. How many were CO'd?

2 A. I want to say about 135 and I'm going to guess
3 at that.

4 Q. And how many were closed, in other words sold
5 or closed, with the construction loan in place? How
6 many? You had 135 CO'd in November of '05; correct?
7 I'm asking you. We're taking a snap shot now. November
8 of '05.

9 A. No, ma'am. November of '05 there wasn't 135
10 homes CO'd at that time. Probably not moving into April
11 of '06.

12 Q. In November of '05 how many homes were CO'd?

13 A. I don't know.

14 Q. How many homes were under contract?

15 A. If I knew what you were going to ask I would
16 have all this information. But at that time I would say
17 probably -- November of '05 probably around four hundred
18 homes.

19 Q. That you closed on with these contracts where
20 you did this 90 percent thing?

21 A. Yes, ma'am. Not CO'd.

22 Q. They weren't CO'd?

23 A. No.

24 Q. So you had no CO'd homes?

25 A. I don't know the exact number.

1 Q. You started this program in September of '04;
2 correct?

3 A. That's correct.

4 Q. And you stopped building in late '06; is that
5 correct?

6 A. In November of '06, we stopped pretty much at
7 that time. I started telling the subs they could start
8 liening homes and that stopped all lending.

9 Q. So in two years and two months you executed how
10 many contracts to build homes?

11 A. Total number of contracts I don't know.

12 Q. At the half way point in the time period of
13 September of '04 to November '06 you realized -- I
14 believe you testified that you weren't getting your
15 permitting in a timely fashion. It was taking seven
16 months in some cases?

17 A. Rare occasions, yes, ma'am.

18 Q. But you were still signing contracts with
19 interest reserves of eight months?

20 A. No. Going into the end of '05, going into '06
21 we increased the amount of money that would be in the
22 interest reserves not realizing where it was. The exact
23 dates of when that started changing in there I don't
24 know.

25 Q. How long does it take to construct a home

1 irrespective of the permit?

2 A. A hundred and ten days.

3 Q. When was the last time you completed
4 construction of a house in 110 days?

5 A. And that would probably be in 2005.

6 Q. That does not include the period of time it
7 takes to get the permit; correct?

8 A. No. Just regular time.

9 Q. How long in November of '05 was it taking to
10 get the permit?

11 A. In November of '05 it was probably still taking
12 five months to get a building permit.

13 Q. So five months plus 110 days that's about nine
14 months give or take ten days?

15 A. Yes, ma'am, that's correct.

16 Q. When did you realize that you weren't going to
17 be able to complete the house from contract to CO within
18 the time that the bank had reserved for the interest
19 escrow?

20 A. Again, it has to be sometime in 2005. I can go
21 back and see when we started changing them. We started
22 out with no more than \$3500 or \$4000 in interest
23 reserves.

24 Q. What did that cover \$3500, \$4000, what period?

25 A. When all this started.

1 Q. How much time would \$3500 or \$4000 cover for
2 interest reserves, two months, three months, five
3 months?

4 A. At seven percent interest is -- when Coast Bank
5 brought the proposition to us is what the interest was
6 to be. So at the time Phil Koone (phonetic), John
7 Miller, Jesse Battle and John Wiley sat down and said
8 that would be plenty of money to have in there to permit
9 and build these homes.

10 Q. You still haven't answered my question. Listen
11 carefully.

12 A. I'm trying to do it the best I can.

13 Q. How much time does \$3500 to \$4000 cover for
14 interest on the home? Give me a number.

15 A. Five months. Actually at that time we were all
16 looking at between a four and five month time of
17 permitting to get the CO.

18 Q. And during what period of time were you
19 reserving four to five months of interest on these
20 construction loans?

21 A. Without going back and looking at the documents
22 I can't answer that.

23 Q. In November of '05 how much interest reserve
24 was Coast Bank holding?

25 A. Without looking at the documents now the way

1 you're asking me, I can't tell you what was put in those
2 contracts for interest reserve. But I'm assuming it was
3 between eight and ten thousand dollars.

4 Q. So you increased it at some point?

5 A. Yes, ma'am.

6 Q. Between September of '04 and November of '05?

7 A. Yes.

8 Q. Did you increase it again after November of
9 '05?

10 A. I don't know.

11 Q. If you realized that the permitting and the
12 building process was taking longer than you had interest
13 reserves, shouldn't you have done something about that?

14 A. Yeah. You can do it at a certain date and time
15 on any and all projects moving forward, but you can't
16 about the ones you've already closed.

17 Q. Did you do something about it when you realized
18 it?

19 A. Yes, ma'am.

20 Q. What did you do?

21 A. We increased the amount of money that was in
22 the interest reserves.

23 Q. When was that?

24 A. I don't know.

25 Q. When you were building these houses down in

1 North Port, as you would contract with the subs to do
2 certain jobs, were you paying them upon completion of
3 those tasks?

4 A. Yes, ma'am.

5 Q. How were you paying them?

6 A. They would submit an invoice with a PO number
7 and they would be paid.

8 Q. How long did it take you to pay them?

9 A. Well, it started off at a two week period and
10 went into a 30 day and it did get into three months.

11 Q. When did it get into three months?

12 A. Probably in the June part of '06.

13 Q. Were you still accepting contracts and selling
14 houses in June of '06?

15 A. I believe we were yes, ma'am.

16 Q. Even though you weren't able to pay your subs
17 for three months?

18 A. Yes, ma'am.

19 Q. Didn't you know you were behind?

20 A. No, ma'am.

21 Q. Mr. Battle, that doesn't make any sense.

22 A. Okay.

23 Q. If you can't pay your subs for three months
24 you're obviously having a cash flow problem?

25 A. That's correct.